

# REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND THE COUNCIL ON GEORGE MUNICIPALITY

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the accompanying financial statements of the George Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 6 to 104.

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act (DoRA) and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the George Municipality as at 30 June 2011, and its financial performance and cash flow statement for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

**Emphasis of matters**

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

**Material under spending of the budget**

9. The municipality has materially underspent its budget. At 30 June 2011, operating expenditure budget was underspent by R56 million, this was a result of underspending on housing projects during the year to the amount of R24 million. As a consequence, the municipality has not fully achieved the service delivery objectives as detailed in the statement of comparison of budget and actual amounts for the year ended 30 June 2011.

**Restatement of corresponding figures**

10. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of an error discovered during the 2010-11 financial year in the financial statements of the George Municipality at, and for the year ended, 30 June 2010.

**Additional matters**

11. I draw attention to the matters below. My opinion is not modified in respect of these matters.

**Material inconsistencies in other information included in the annual report**

12. The draft annual report has not yet been submitted to me for review to identify any material inconsistencies that may exist between the annual report and financial statements. The final printer's proof of the annual report will be reviewed and any material inconsistencies then identified will be communicated to management. Should the inconsistencies not be corrected, it may result in the matter being included in the audit report.

**Unaudited supplementary schedules**

13. The supplementary information set out on pages 105 to 108 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages 7 to 52 and material non-compliance with laws and regulations applicable to the municipality.

**Predetermined objectives**

14. There are no material findings on the annual performance report.

**Compliance with laws and regulations****Financial Statements**

15. Contrary to the requirements set out in section 122 of the MFMA, the municipality did not prepare financial statement that fairly present the state of affairs of the municipality, its performance against budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at 30 June 2011 as the financial statements submitted for audit were subject to material corrections during the audit process.

### **Expenditure Management**

16. The accounting officer did not take reasonable steps to prevent unauthorised expenditure and irregular expenditure, as required by section 62(1)(d) of the Municipal Finance Management Act.
17. The municipality established a section 21 company which is in contravention with section 86(b)(2) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

### **Procurement and contract management**

18. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of Municipal Supply Chain Management (SCM) Regulations (GNR. 868 of 30 May 2005), regulation 17(a) and (c).
19. Awards were made to providers who are persons in service of other state institutions or whose directors/principal shareholders are persons in service of other state institutions in contravention of the requirements of SCM regulation 44. Furthermore, the providers failed to declare that they were in the service of the state, as required by SCM regulation 13(c).
20. Awards were made to suppliers who did not submit a declaration on their employment by the state or their relationship to a person employed by the state as per the requirements of SCM regulation 13(c).

### **INTERNAL CONTROL**

21. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

### **Leadership**

22. The accounting officer did not adequately exercise oversight responsibility over compliance with laws and regulations by ensuring that senior management has met their responsibilities. This is evidenced by the extent of non-compliance reported in relation to procurement and contract management.

### **Financial and performance management**

23. Management did not implement adequate review controls over the preparation of complete and accurate financial statements in respect of accounting for provisions and disclosure items.
24. Management did not adequately monitor the declaration of interest forms to ensure that suppliers completed their declaration of interest forms correctly and therefore led to the SCM unit being unable identify conflicts of interest timeously.

## OTHER REPORTS

### Investigations

25. The special investigations unit (SIU) is currently finalising the investigation into the alleged unlawful establishment of the George Housing Agency (GHA) and alleged unlawful payments with regards to the construction of the George Fire Station. Council is in the process of unwinding GHA and the results of the second investigation are unknown at the date of this report.
26. During the financial year investigations into the allegations of gross negligence by senior management were conducted. The individuals involved were disciplined by council and the cases were closed.

*Auditor-General*  
Cape Town

30 November 2011



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